

HOUSE BILL REPORT

HB 2820

As Reported by House Committee On:
Finance

Title: An act relating to excise tax relief for businesses impacted by light rail construction.

Brief Description: Providing business and occupation tax relief for businesses impacted by light rail construction.

Sponsors: Representatives Pettigrew, Santos, Hinkle, Hasegawa, Hudgins, Chase, Holmquist, Upthegrove and McDonald.

Brief History:

Committee Activity:

Finance: 1/25/06, 2/1/06 [DPS].

Brief Summary of Substitute Bill

- Allows businesses in proximity of the Sound Transit light rail construction route along a segment of Martin Luther King, Jr. Way to deduct amounts received on those locations from taxable income for the purposes of the business and occupation (B&O) taxes until no later than 2009.
- Credits the total amount of new B&O deductions against the amount of regional transit authority sales and use tax to be distributed.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives McIntire, Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Minority Report: Do not pass. Signed by 1 member: Representative Hunter, Vice Chair.

Staff: Mark Matteson (786-7145).

Background:

Business and occupation tax. Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are

deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. Retailing activities, for example, are taxed at a 0.471 percent rate, while general services are taxed at a 1.5 percent rate.

The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees.

Retail sales and use taxes. The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The use tax applies if retail sales tax has not been collected. Both the state and local governments impose sales and use taxes; the state rate is 6.5 percent and the average local rate is about 2 percent statewide. Sales taxes are collected by the seller from the buyer at the time of sale. Use tax is remitted directly to the Department of Revenue. State revenues are deposited to the State General Fund.

One local sales and use tax that has been imposed is a 0.4 percent tax to fund high-capacity transportation projects in the Regional Transit Authority (RTA) service area within King, Snohomish, and Pierce counties. Following voter approval, Sound Transit first imposed this tax in 1997. Proceeds from the RTA tax must be used for any purpose relating to planning, construction, and operation of high capacity transportation systems.

Sound Transit's Link Light rail project and impact to businesses. Sound Transit is the RTA for Snohomish, King, and Pierce counties. Sound Transit began construction of a 14 mile light rail line from downtown Seattle to Tukwila in late 2003. The line is expected to be operational by July 2009, with an extension to SeaTac Airport operational in late 2009.

Part of the light rail line is an at-grade facility that occupies part of the right-of-way along Martin Luther King (MLK) Jr. Way in Rainier Valley in southeast Seattle. To address impacts to businesses and communities due to the construction along MLK Jr. Way, Sound Transit in 1999 established a \$50 million fund "to mitigate impacts of construction and operation of light rail in southeast Seattle;" this fund is known as the Rainier Valley Community Development Fund (RVCDF). In 2002, a nonprofit was organized to establish and manage the fund.

According to the September 8, 2005, Sound Transit board meeting minutes, Jaime Garcia, the executive director of the RVCDF nonprofit, testified that 32 percent of the businesses receiving business disruption assistance from the nonprofit had experienced sales declines of 50 percent or more.

Summary of Substitute Bill:

A deduction under the B&O tax is allowed for amounts received by a business on a parcel of land that is less than 500 feet from the right-of-way of MLK, Jr. Way between McClellan Street and the Boeing Access Road. The deduction expires either when the Department of Revenue determines that the affected MLK, Jr. Way segment of the light link rail line is substantially complete or on July 1, 2009, whichever occurs first.

The total amount of B&O deductions claimed must be deducted from the amounts to be distributed to Sound Transit from the proceeds of the RTA tax and deposited to the State General Fund.

Substitute Bill Compared to Original Bill:

Changes the tax preference from a B&O tax exemption to a B&O tax deduction with respect to amounts received by business locations along the MLK, Jr. Way segment. Reimburses the State General Fund losses out of proceeds from the RTA sales and use tax.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: A light rail fixed guideway is being constructed down the middle of Martin Luther King (MLK) Jr. Way from McClellan Street to Boeing Access Road. The area is a haven for first generation immigrants. The construction is very disruptive to businesses, and devastating in some circumstances.

It has been a year and a half since construction was started. Just about every business along MLK has been heavily impacted. The current situation cannot be sustained by many owners.

These are hard-working people. The community had been under the impression that the construction would be segmented, to limit the impacts to three months. However, changes in funding timing and construction schedule has meant Sound Transit has to do everything all at once. We are doing everything we can to keep going. We are fighting to hold onto the American Dream, but it is very difficult.

It is part of the City of Seattle's agenda to mitigate some of the impacts. We want you to consider the plight of a group of state residents who are the heart and soul of Rainier Valley. This is the lowest income community in the city, at below 80 percent of the city median income.

There are over 70 languages and dialects spoken here. Businesses are often what hold many first generation immigrant families together. Anyone who settles in Rainier Valley must accept diversity as a way of life.

The Community Development Fund (CDF) is a sustaining institution that provides community support and coordination. We formed a nonprofit in 2002, to address the needs of small business owners in the MLK area. We provide business relief assistance and economic development services.

Sound Transit and the City of Seattle established a \$50 million endowment to the CDF over a period of six years. Our funding is supplemental to federal funding received. We are here to

provide information, not to support or oppose. There are 274 businesses in the area; 128 are owned by persons of Asian descent, 42 by Africans or African-Americans. Since 2003, there has been a 33 percent decrease in traffic along MLK. To date, the CDF has disbursed about \$7.2 million to 126 different businesses. We are working to provide technical assistance and other services to local businesses, which are at their wits' end.

The Rainier Chamber of Commerce is in partnership in preserving a unique business community. It is impossible to try to conduct business with a bulldozer in front of your location. The state should partner here.

The focus of this bill should be on businesses renting space. Many are convenience businesses that rely on foot traffic.

Testimony Against: None.

Persons Testifying: Representative Pettigrew, prime sponsor; Quang Nguyen, Vietnamese American Development Association; Tony To, Home Sight; Jaime Garcia and Robert Mohn, Rainier Valley Community Development Fund; and Darryl Smith, Rainier Chamber of Commerce.

Persons Signed In To Testify But Not Testifying: None.